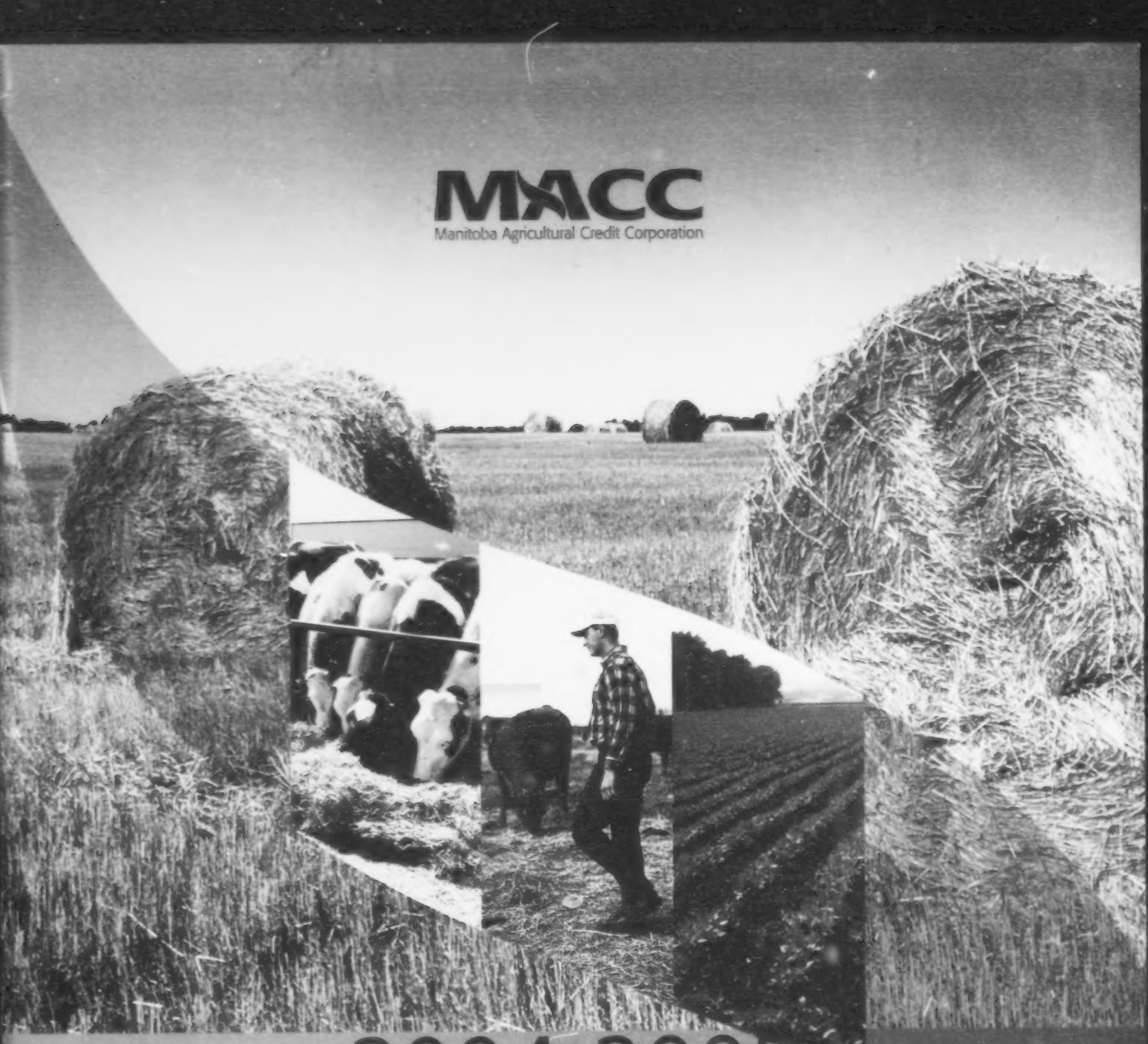
MACC

Manitoba Agricultural Credit Corporation



# 2004-2005 ANNUAL REPORT

WORKING WITH YOU TO BUILD YOUR FUTURE

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BOARD OF DIRECTORS:

**Sandy Yanick** – Acting, Chair
**Joe Eichler**
**Robert Friesen**
**Goldwyn Jones**
**Frieda Krpan**
**Ron Kostesky**

EXECUTIVE MANAGEMENT:

**Charlene Kibbins**
Acting Chief Executive Officer
Vice-President Corporate & Program Delivery
Ex-officio Board Member

**Karen McEachen**
Vice-President, Program Delivery
Chief Financial Officer

**Lester Vopni**
General Counsel, Corporate Secretary


This annual report can be found online at
http://www.gov.mb.ca/agriculture/macc/pdf/2004-05_annual_report.pdf

La version française de ce rapport annuel se trouve sur le site Internet
http://www.gov.mb.ca/agriculture/macc/pdf/2004-05_annual_report.fr.pdf

*Cover photo (bean field) courtesy of Manitoba Pulse Growers Association Inc.*

MACC

Manitoba Agricultural Credit Corporation

## OUR VISION:

A sustainable Manitoba agricultural economy

## OUR PROMISE:

To participate in meeting the financial requirements of the agricultural community, thereby contributing to a vibrant Manitoba economy that is globally competitive

## OUR COMMITMENT:

To facilitate acquisition of credit for Manitoba farmers, especially young, beginning, low-equity farmers or those considering higher risk farm diversification, in establishing a viable farm operation

To provide the vehicle through which the Province of Manitoba can implement financial agricultural programs, determined by the government of the day as essential for the long-term viability of agricultural production, agricultural producers and rural development

To continue to develop MACC's relationship with private lending institutions in order to provide Manitoba farmers with access to credit under reasonable terms and conditions

To administer some of the Province's emergency and special assistance programs

**Minister of Agriculture, Food and Rural Initiatives**

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable John Harvard
Lieutenant-Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the period of April 1, 2004 to March 31, 2005.

Yours truly,

Rosann Wowchuk

Rosann Wowchuk
Minister

MACC
Manitoba Agricultural Credit Corporation

Unit 100 – 1525 First Street S.
Brandon MB R7A 7A1
T 204.726.6850 • F 204.726.6849

The Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mrs. Wowchuk:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the fiscal year ending March 31, 2005.

Yours truly,

Sandy Yanick

Sandy Yanick
Acting, Chair

# MESSAGE FROM THE CHAIR & CEO

Over the past year, the agricultural industry has faced numerous challenges. MACC's programs must support producers through challenging circumstances and, at the same time, provide options to take advantage of future opportunities. The agricultural sector in Manitoba requires innovation and forward-thinking to help its participants sustain and grow their operations. Expanding existing and developing new markets aimed at increasing revenues will contribute to the stability of the agricultural community. MACC's suite of lending products supports agricultural producers as they employ new technologies and policies to produce safe, quality, world-class products.

The composition of farm operations continues to change in response to an environment of great variability and uncertainty. High input costs, lower-than-average commodity prices, ongoing BSE and other trade-related issues, as well as adverse weather conditions, are among the challenges precipitating change. MACC is actively involved with producers at the farm gate and from this interactive relationship responds to the producers' changing needs through program development and enhancements. MACC's pro-active product development approach supports access to the financial products necessary for Manitobans to enhance their profile in the world market.

Volatile market conditions resulting from the continuing BSE crisis in Manitoba and Canada weigh heavily on Manitoba's producers and the rural community. MACC has developed and adapted programs to assist ruminant producers with their cash flow needs through this crisis. The positive impact from the flow of dollars multiplies as it moves through to rural businesses and the community as a whole. The BSE Recovery Loan Program has been extended for an additional year, while the Feeder Financing Initiative was reintroduced to provide up to 100% financing to purchase feeders or obtain a cash advance on cattle already in the producer's possession.

Border closures and reduced market opportunities for Canadian livestock has resulted in a 30% increase in Manitoba's herd size since 2003. About one third of cattle in Manitoba are more than seven years old (predate of ruminant to ruminant feed ban). Cull rates, for 2004 were only 4% compared to the pre-BSE average of 11%. An increase in slaughter capacity is desirable in order for Manitoba to work through the cattle inventory issues brought on by the BSE crisis and to prepare the industry for the future. Increased domestic slaughter with complementary market options for producers would support industry sustainability and reduce the implications of future trade challenges on the producer and the industry. MACC's Enhanced Diversification Loan Guarantees (DLG+) have the capacity to help establish long-term, viable slaughter capacity in Manitoba.

Due to the heavy export dependence of Manitoba's agricultural sector, the continued appreciation of the Canadian dollar against the US dollar has presented another challenge to our producers. The value of the Canadian dollar relative to the US dollar has increased by approximately 26% over the past two years, from an average of $0.65 US in January 2003 to $0.82 US in January 2005. While the Canadian dollar's appreciation has reduced the cost of certain imported inputs, these cost reductions were generally overmatched by reduced returns to producers from the marketplace.

Manitoba's producers have captured new opportunities and met with many successes in spite of the challenges. The agricultural industry continues to seek new markets and expand existing market opportunities for our commodities. Through the DLG+, MACC is able to give much needed support to the livestock and oilseed industries where value-added opportunities are being

explored and acted upon. As part of the value-added strategy, MACC programs help keep revenue within the province, benefiting not only the agriculture sector but also all Manitobans through job creation, an increased tax revenue base, and various other social and economic benefits. Through these projects, MACC helps strengthen the agricultural sector by enabling producers to maintain and expand cash flow and address market issues associated with being part of the global economy.

In addition, Canada successfully contested the US initiated countervail and anti-dumping trade challenges in the hog industry. The US Department of Commerce deemed MACC programs to be at a *de minimis* level of subsidy. The US International Trade Commission also determined that imported pigs from Canada do not harm US producers. As a result of this ruling, duties collected under a temporary anti-dumping rule by the US have been terminated and duties already collected will be returned to hog producers.

In early 2004, Manitoba Agriculture, Food and Rural Initiatives moved forward with the Growing Opportunities (GO) Initiative, a comprehensive and focused strategy to reposition the department to best serve the needs of Manitoba's farmers and rural communities. MACC is committed to the GO Initiative. MACC's front line representatives will be located in a number of the one-stop GO Centres and GO Offices for producers and rural communities. These centres and offices will provide a wide range of services from farm production and rural economic development to business development, financing, and production insurance.

With the aim of increasing the capacity to provide a broader range of services to Manitoba's agricultural industry, the government announced the amalgamation of MACC and the Manitoba Crop Insurance Corporation (MCIC) to create the Manitoba Agricultural Services Corporation (MASC) in its 2005 budget speech. MASC will be a major corporate entity, providing over $1.4 billion in insurance coverage and administering a loan and guarantee portfolio in excess of $600 million. Lending operations will continue to be run out of the office in Brandon, with the insurance operations run out of the office in Portage la Prairie. We look forward to the establishment of the Manitoba Agricultural Services Corporation.

On behalf of the Board of Directors and the Executive Management team we would like to thank our staff who excel in the performance of their duties and demonstrate their professionalism as they continue to deal with the challenges facing the industry we serve. We would also like to express our sincere appreciation to our Board of Directors and our Minister, Honourable Rosann Wowchuk, for their guidance and support throughout the year.

C Kibbins

Charlene Kibbins
Acting, CEO

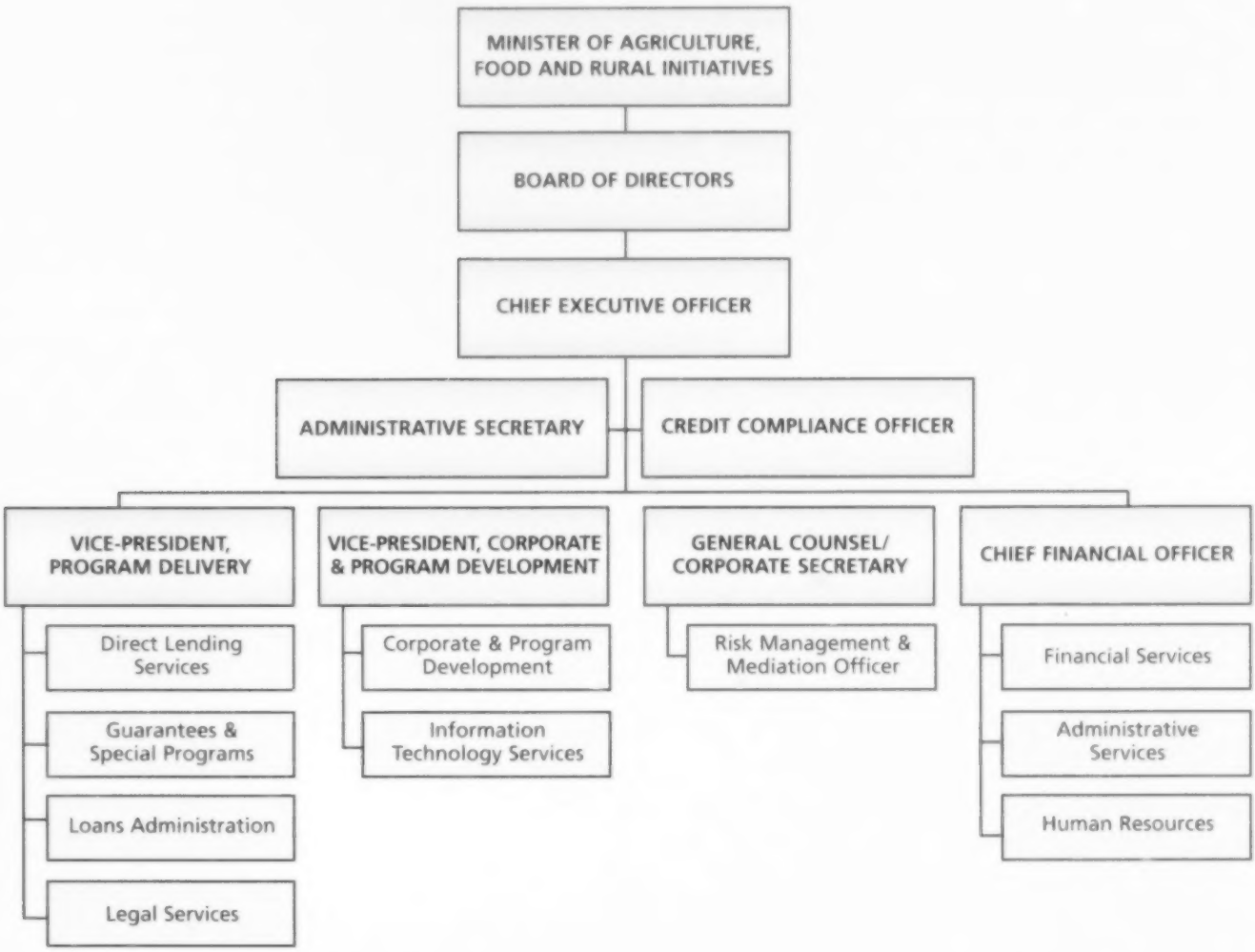
Sandy Yanick

Sandy Yanick
Acting, Chair

# ORGANIZATION CHART

MACC staff is located throughout the province, with the head office in Brandon. MACC is governed by a Board of Directors appointed by the Lieutenant-Governor in Council. The CEO, who reports to the Board of Directors, is responsible for the management, direction and control of the operations of MACC and the day-to-day administration of its affairs. The CEO is also a member of the Executive Management Committee of Manitoba Agriculture, Food and Rural Initiatives. MACC is comprised of three main divisions - Program Delivery, Corporate and Program Development, and Finance and Administration.

## MANITOBA AGRICULTURAL CREDIT CORPORATION



# OPERATING PHILOSOPHY

## ALLIANCE BUILDING

We are committed to building partnerships and relationships within the agricultural community.

## SERVICE

We are committed to providing professional, prompt, respectful, orderly, efficient and ethical service.

## PRODUCTIVITY

We are dedicated to providing a high volume of high-quality products.

## PROGRESS

We believe in the future of agriculture as a viable industry in Manitoba and are dedicated to program change and enhancement that addresses unserviced financial needs in the agricultural community.

## PROFESSIONAL GROWTH

We are committed to employee development and advancement in an atmosphere of mutual trust that fosters initiative and creativity.

## ORGANIZATIONAL STRUCTURE

We are committed to defining roles and responsibilities that will support efficient decision-making, orderly flow of information and effective program delivery.

## COMMUNICATION

We believe that effective and open communication, based on listening and responding, is integral to a successful organization.

# OPERATIONAL BACKGROUND

MACC recognizes that satisfied, knowledgeable staff is essential in providing ***quality customer service***. In order to determine current levels of employee satisfaction, MACC initiated a process to track corporate performance, ensuring the identification of staff concerns that may impede quality customer service. Field Representatives are the face of MACC for producers and, with the assistance of the behind-the-scenes staff, they ensure that critical timelines and producers' needs are met. Expanded access to our clients through email and the Internet will also improve customer service; and will progress as rural communities become more accessible electronically. MACC looks forward to taking advantage of improved electronic access to rural communities to provide more efficient service for clients. MACC recognizes that producers still require one-on-one contact with staff in strategically placed offices.

Another goal for MACC is ***to be recognized for quality financing programs***. Assessing and managing credit risk is essential in protecting MACC's clients and the Province. Credit risk is inherent both in MACC's lending portfolio and its guarantee programs. MACC strives to provide quality programs with reasonable terms and conditions available to all sectors of agriculture, ensuring a diversified portfolio. MACC's highly skilled lending staff work with producers to structure their financing requirements to provide for long-term planning. Additionally, MACC continually examines the current agricultural environment to ensure that financing gaps for rural economic development projects are being filled. Such gaps include the financing of larger production units necessary to take advantage of economies of scale, supply-managed commodities, and supporting development projects complementing the government's commitment to agriculture. The benefits of these production units extend beyond the producers directly involved to suppliers of raw inputs and to the rural community residents employed by these operations.

MACC ***provides unique and essential financial assistance programs*** facilitating the establishment and development of value-added and diversification activities of farms and agricultural enterprises. In today's agricultural environment, value-added production activity (i.e. increased slaughter capacity, special crop processing, etc.) helps bring stability to our markets as well as improving our producers' bottom lines. MACC complements its traditional lending programs with guarantee products provided in partnership with private sector lenders. The guarantees provide support to financial institutions in rural communities encouraging them to provide financing with reasonable terms and conditions for projects they might otherwise not be able to support. A number of diversified enterprises and agricultural processing initiatives have been guaranteed by MACC.

In many sectors of agriculture, costs for capital assets and other operating expenses continue to rise faster than gross revenues resulting in reduced debt service capacity and shrinking net margins. At the same time, credit from traditional lenders is becoming more restrictive. This is reflected in increasingly stringent eligibility requirements and a decreasing number of local branches. In order to ***increase the availability of credit, under reasonable terms and conditions***, MACC offers guarantee programs to help producers access financing for capital intensive projects from the private sector. This is a valuable tool for all our producers, especially for our young producers, enabling them to compete, not only in the short term but also for the long term. The client, the rural community, and the lender all benefit from these partnerships.

MACC delivers ***emergency and special assistance programs*** as required for the province on a priority basis. MACC has positioned itself to rapidly respond to emergency and special situations while maintaining our mandated services.

# YEAR IN REVIEW

MACC's vision and goals guide the corporation's efforts throughout the year. These goals fall within the scope of the strategic routes of *Farm Profitability, Diversification / Value Added, and Sustainability* in the Manitoba Agriculture, Food and Rural Initiatives' *Destination 2010 – a Strategic Roadmap for Agriculture, Food and Rural Initiatives.*

The expanded department of Manitoba Agriculture Food and Rural Initiatives, including MACC, the Manitoba Crop Insurance Corporation and the Food Development Centre, has embarked on the Growing Opportunities Initiative; a reorganization intended to modernize the department and expand opportunities leading to a more vibrant rural Manitoba. In the context of the many changes that Growing Opportunities will bring, MACC continues to be committed to its goals and vision.

At a time when producers' bottom lines have been stretched to the limit and commercial lenders have become cautious in agricultural lending, MACC has an even greater role to play in rural Manitoba by helping producers meet their financing needs.

## FARM PROFITABILITY

MACC is committed to providing quality financing programs, and achieves this through constant review and analysis of its programming to ensure relevance to the emerging financial needs of Manitoba producers. Direct Loan limits were increased from $400,000 for individuals and $800,000 for partnerships and corporations to $475,000 and $950,000 respectively. These increased limits more accurately reflect the financial needs of today's farm operations. Similarly, a review of the average net worth of farms in the province was conducted and the net worth limit was increased from $650,000 to $775,000.

MACC strives to achieve quality customer service and has endeavored to measure its success in this area. Over the past year, MACC has sent out client comment sheets with new loan approvals. Twenty-nine percent of clients have returned the forms and responses have been extremely positive. Clients have indicated a 95% overall satisfaction rate, a 91% response time satisfaction rate, and a 95% satisfaction rate regarding staff knowledge and information. Negative comments related to program and policy changes, such as eligibility requirements, fees and interest rates, will be very useful in future programming and policy development.

MACC is now in the final stages of implementing the Business Function Review. Staff is in the process of developing a standard training curriculum to ensure that all field representatives have the necessary skills and knowledge to analyze and prepare sound recommendations to clients.

## DIVERSIFICATION AND ADDING VALUE

MACC is able to provide unique and essential financial assistance programs facilitating the establishment, development, value added and diversification activities of farms and agricultural enterprises. To ensure the availability of capital for long-term diversification and adding value to the Manitoba economy, the program cap and sunset date for the Enhanced Diversification Loan Guarantee Program (DLG+) have been eliminated. The projects guaranteed by DLG+ generate considerable benefits to rural Manitoba, contributing to sustainability of the rural economy.

Availability of credit, under reasonable terms and conditions, from traditional financial institutions to Manitoba farmers is of vital importance. MACC's guarantee programming is an extremely effective vehicle for leveraging private sector lender dollars in rural

Manitoba. The new Operating Credit Guarantee Program has proven itself a very useful tool to Manitoba private sector lenders. Additionally, producer access has been enhanced by participation from Manitoba's Credit Union system.

## SUSTAINABILITY

MACC is dedicated to delivering emergency and special assistance programs for the province on a priority basis. The BSE Recovery Loan was established in 2003 with the onset of BSE and was extended into the 2004-2005 fiscal year. To the end of March 2005, 1,742 BSE Recovery Loans were approved. The Feeder Financing Initiative also continued to provide Stocker Loans to those who would not ordinarily qualify due to net worth restrictions.

The Bridging Generations Initiative provides financial options for the transfer of Manitoba farms with incentives to both the young and retiring farmers. Over the past year, MACC disbursed $11.9 million of Bridging Generations Loans (BL), an increase of $1.3 million over last year. BL clients also have the opportunity to reduce their mortgage payments with the Management Training Credit. To qualify for the credit, young farmers must obtain a BL of at least $50,000 and complete 25 hours of training per year from approved sources. For 2004-2005, over $40,000 was distributed in the Management Training Credit to 45 clients.

MACC fully supports and participates in MAFRI's Sustainable Development Initiative under the *Sustainable Development Act*. MACC encourages staff to recycle, reduce and reuse materials, as well as teleconferencing and carpooling when feasible. In order to determine any potential environmental hazards connected with client's property, MACC conducts on-site inspections and requires clients to complete an environmental questionnaire.

# STRATEGIC DIRECTION

MACC believes in the future of agriculture as a viable industry in Manitoba. The **Vision**, which is the driving force of the corporation, is that of *"A sustainable Manitoba agricultural economy."*

In order to do its part in achieving this vision, the corporation **Promises** *"To participate in meeting the financial requirements of the agricultural community, thereby contributing to a vibrant Manitoba economy that is globally competitive."*

MACC was established in 1958 and has a **Commitment** to:

- facilitate acquisition of credit for Manitoba farmers, especially young, beginning, low-equity farmers or those considering higher risk farm diversification, in establishing a viable farm operation
- provide the vehicle through which the Province of Manitoba can implement financial agricultural programs, determined by the government of the day as essential for the long-term viability of agricultural production, agricultural producers and rural development
- continue to develop MACC's relationship with private lending institutions in order to provide Manitoba farmers with access to credit under reasonable terms and conditions
- administer some of the province's emergency and special assistance programs

The corporation has specific challenges and opportunities offered by new technology and the need to operate in the political spectrum. MACC operates in a setting that is influenced by a number of factors. Some of the dynamics faced by the corporation and its clients include:

- volatile financial situations
- export driven market – including trade and currency issues
- public that is increasingly food safety and environmentally conscious and knowledgeable
- declining rural population
- attendant loss of political influence
- agricultural production/processing that is expensive and rapidly changing

Within this setting and the structure provided by its Vision, Promise and Commitment, MACC is dedicated to co-operation within the financial community in order to offer program development, change and enhancement that address the unserviced financial needs in the agricultural community.

Goals have been established to focus the work of the corporation. Within each goal, MACC challenges itself to accomplish specific initiatives for the 2004-2005 year.

## Goal #1 – To provide quality customer services

| 2004-2005 Strategies | 2004-2005 Targets | 2004-2005 Results |
|---|---|---|
| **Enhance efficiency, accuracy, and turnaround time in responding to client requests** | | |
| • Utilize Client Comment Sheet as a measurement of client satisfaction | • Revise form to encourage full completion<br>• Test period of modified form<br>• Maintain 20% rate of return | • Form revised<br>• 92% of questions answered compared to 89% in 2003-2004<br>• 29% rate of return |
| • Field data entry of application/ approval processing | • Analysis and design by December 2004<br>• Development in January 2005 | • Maintain Client module completed<br>• Maintain Inquiry module completed |
| • Develop external credit scoring systems | • Establish committee by February 2005 | • Loan Categorization element implemented |
| • Credit compliance | • Complete BSE Recovery Loan Part 1 review<br>• Build audit features for conversion of existing loan analysis spread-sheet to centralized database | • Deferred<br>• Deferred<br>• Management Training Credit Audit conducted and draft report completed<br>• Research and development of a risk-based internal control framework strategy |
| **Enhance MACC's client accessibility** | | |
| • Provide improved program information online | • Communications Coordinator to take HTML training to complete MACC edits to website<br>• Establish tracking process for online client inquiries<br>• Identify baseline for number of 'hits' | • HTML training completed<br>• Deferred<br>• Monthly baseline – 3,320 |
| • Perform on-site data entry for clients | • Establish and implement appropriate tracking system to determine demand for on-site data entry | • Low demand; not required |

| 2005-2006 Strategies | 2005-2006 Targets |
|---|---|
| **Enhance efficiency, accuracy, and turnaround time in responding to client requests** | |
| • Utilize Client Comment Sheet as a measurement of client satisfaction | • 100% of forms completed fully<br>• 33% rate of return |
| • Field data entry of application/approval processing | • Completion of Loan Setup module<br>• Development of Analysis Package module |
| • Develop external credit scoring systems | • Research and make recommendation |
| • Credit compliance | • Finalize Management Training Credit audit<br>• Complete BSE Recovery Loan Part 1 review<br>• Conduct Direct Loan review<br>• Coordinate establishment of audit features and baseline |
| **Enhance MACC's client accessibility** | |
| • Provide improved program information online | • Establish and test tracking process for online client inquiries<br>• Increase in the number of hits from the baseline by 10% |

## Goal #2 – To be recognized for quality financing programs

| 2004-2005 Strategies | 2004-2005 Targets | 2004-2005 Results |
|---|---|---|
| **Enhance awareness of MACC programs and accomplishments** | | |
| • Provide program information to producers, lenders and extension staff at trade shows | • Determine process for recording<br>• Establish baseline of participation per region | • As compiled in Fairs Exhibitions List:<br>E - 14 events – (40%)<br>SW - 10 events – (30%)<br>NW - 10 events – (30%) |
| • Conduct program awareness sessions with producers | • Prepare material for 2005-2006 Focus Groups | • Deferred to 2006-2007 |
| • Initiate regular MACC articles for the District newsletters in the four Ag regions | • Define process<br>• Encourage Field Reps to submit articles | • Deferred to 2005-2006<br>• Importance of articles has been identified to Field Reps |
| • Program delivery sessions for MACC staff | • Conduct 1 full day session | • 1/2 day session at Staff Conference |
| • Initiate development of lenders' manuals for the DLG+ Program | • Distribution | • Completed |
| • Deliver Awareness Campaign with Communication Services | • Consultation and development<br>• Initiate first stage of campaign | • Completed<br>• Deferred |

| 2005-2006 Strategies | 2005-2006 Targets |
|---|---|
| **Enhance awareness of MACC programs and accomplishments** | |
| • Provide program information to producers, lenders and extension staff at trade shows | • 15 events for each region |
| • Initiate regular MACC articles for the MAFRI newsletters | • Define process<br>• Two articles per region for fiscal year |
| • Program delivery sessions for MACC staff | • Conduct 1 full day of session |
| • Deliver Awareness Campaign with Communication Services | • Initiate first stage |

## Goal #3 – To provide unique and essential financial assistance programs facilitating the establishment, development, value-added and diversification activities of farms and agricultural enterprises

| 2004-2005 Strategies | 2004-2005 Targets | 2004-2005 Results |
|---|---|---|
| **Analyze the marketplace and report on identified gaps and emerging needs** | | |
| • Make recommendations on financing needs in the following areas: | • Commodity price list for organic and pesticide-free products | • Demand driven; case-by-case determined |
| | • Possible financing options for meat processing facilities | • Individual project analysis |
| | • Operating credit options for hog industry | • Preliminary analysis completed |
| | • Lighter weight (under 400 lb) for stockers | • Currently insufficient demand |
| | • Variable rate financing | • Investigation underway |
| • Measure activity relating to established target groups under the Client Profile System | • Identify additional information | • Deferred until Field Data Entry portion of system is completed |
| **Develop or enhance existing products to fill gaps and meet needs** | | |
| • Lending on First Nations' reserves | • Determine if MACC role exists for lending on First Nations' reserves | • Investigation and analysis |
| **Implement new products or program enhancements** | | |
| • Green Loan Initiative | • Work with partners to establish criteria and guidelines for Green Loan initiative | • Deferred |

| 2005-2006 Strategies | 2005-2006 Targets |
|---|---|
| **Analyze the marketplace and report on identified gaps and emerging needs** | |
| • Make recommendations on financing needs in the following areas: | • Net worth<br>• Lending Limits – Direct Loans<br>• Lending Limits – Stocker Loans<br>• Variable rate financing |
| • Measure activity relating to established target groups under the Client Profile System | • Identify target groups to be measured |
| **Develop or enhance existing products to fill gaps and meet needs** | |
| • Lending on First Nations' reserves | • Eligibility and delivery of BSE Recovery Loans |
| **Implement new products or program enhancements** | |
| • Green Loan Initiative | • Develop link with Farm Stewardship Association of Manitoba |

## Goal #4 – To increase the availability of credit, under reasonable terms and conditions, from traditional financial institutions, to Manitoba farmers

| 2004-2005 Strategies | 2004-2005 Targets | 2004-2005 Results |
|---|---|---|
| **Analyze the marketplace and report on identified gaps and emerging needs** | | |
| • Maximize private sector lender involvement with MACC guarantee programs | • Conduct consultations session with lenders throughout the province (SW 29%, NW 27%, Eastern 44%)<br>Note: Lenders' Corporate Head Offices in Winnipeg were included in the initial 2004-2005 Target for Eastern Manitoba | • Conducted 51 consultation sessions with lenders:<br>– SW 6% - 3 visits<br>– NW 24% - 12 visits<br>– Eastern 56% - 29 visits<br>– Corporate Head Offices 14% - 7 visits |
| **Develop or enhance existing products to fill gaps and meet needs** | | |
| • Feeder Associations | • Revise Feeder Association Agreement | • Deferred |
| • Breeder Financing | • Establish criteria and guidelines for a Breeder Association | • Deferred |
| **Implement new products or program enhancements** | | |
| • Analyze marketplace and implement program renewal if warranted | • DLG+ | • Program cap and sunset date were removed |

| 2005-2006 Strategies | 2005-2006 Targets |
|---|---|
| **Analyze the marketplace and report on identified gaps and emerging needs** | |
| • Maximize private sector lender involvement with MACC guarantee programs | • Conduct 60 consultation sessions with lenders:<br>– SW 10% – 6 visits<br>– NW 25% – 15 visits<br>– Eastern 50% – 30 visits<br>– Corporate Head Offices 15% – 9 visits |
| **Develop or enhance existing products to fill gaps and meet needs** | |
| • Feeder Associations (Manitoba Livestock Associations Loan Guarantees) | • Develop loan guarantee program combining Feeder/Breeder; establishing criteria and guidelines for a Breeder Association<br>• Develop program agreements<br>• Review Feeder Associations component lending limits |
| **Implement new products or program enhancements** | |
| • Manitoba Livestock Associations Loan Guarantees | • Breeder Financing component Agreement signed and program rolled out by March 31, 2006 |
| **Implement program renewal** | |
| • Analyze marketplace and implement program renewal if warranted | • Implement program renewal for DLG+ |

## Goal #5 – To deliver emergency and special assistance programs for the province on a priority status

| 2004-2005 Strategies | 2004-2005 Targets | 2004-2005 Results |
|---|---|---|
| **Have a vehicle to address the needs of Manitoba farm families to facilitate intergenerational farm transfers** | | |
| • Meet with lenders, stakeholders and clients to help identify financing gaps and industry trends | • Establish process for reporting more and better information on Networking Log<br>• Establish baseline of contacts and number of people reporting information | • Networking Log modified<br>• Insufficient data recorded<br>• Determined tracking method not working well; need to modify |
| **Establish an archive system to provide ready access to emergency and special assistance program information** | | |
| • Develop an archive system format using the Flood Proofing Loan Assistance Program information as a template | • Complete Flood Proofing Loan archive | • Initial sort of all programs underway |
| **Implement Program Renewal** | | |
| • Analyze marketplace and implement program renewal if warranted | • Comprehensive Refinancing program (RP) | • Treasury Board approval for changes to the Comprehensive Refinancing Program |

| 2005-2006 Strategies | 2005-2006 Targets |
|---|---|
| **Have a vehicle to address the needs of Manitoba farm families to facilitate intergenerational farm transfers** | |
| • Meet with lenders, stakeholders and clients to help identify financing gaps and industry trends | • Modify tracking system<br>• Establish baseline of contacts and number of people reporting information |
| **Establish an archive system to provide ready access to emergency and special assistance program information** | |
| • Develop an archive system format using the Flood Proofing Loan Assistance Program information as a template | • Complete sort of all program files<br>• Complete Flood Proofing Loan Assistance Program archive |

# SUMMARY OF OPERATIONS

MACC has a reputation for proactive financial programs meeting the challenges and opportunities faced by the agricultural industry. We continually monitor farm financial services in order to provide financing in gap areas that are not served by other institutions. MACC works in cooperation, not in competition, with other financial institutions to ensure that Manitoba's farming community is fully serviced. MACC provides short, intermediate and long-term credit to agricultural producers serving a wide variety of purposes. We work with Manitoba farmers to find the financial management answers to help them achieve their goals.

MACC's farm lending products include:

## DIRECT LENDING PROGRAM

- Direct Loans
- Stocker Loans
- Bridging Generations Initiative
- Young Farmer Rebate

## EMERGENCY AND/OR SPECIAL ASSISTANCE PROGRAMS

- BSE Recovery Loans
- Comprehensive Refinancing Loans
- Manitoba Farm Mediation Loan Guarantees

## GUARANTEED LOAN PROGRAMS

- Enhanced Diversification Loan Guarantees
- Manitoba Cattle Feeder Associations Loan Guarantees
- Operating Credit Guarantees

## PROPERTY MANAGEMENT

- Short Term Leases
- Land Lease Option Program

## DIRECT LENDING PROGRAM

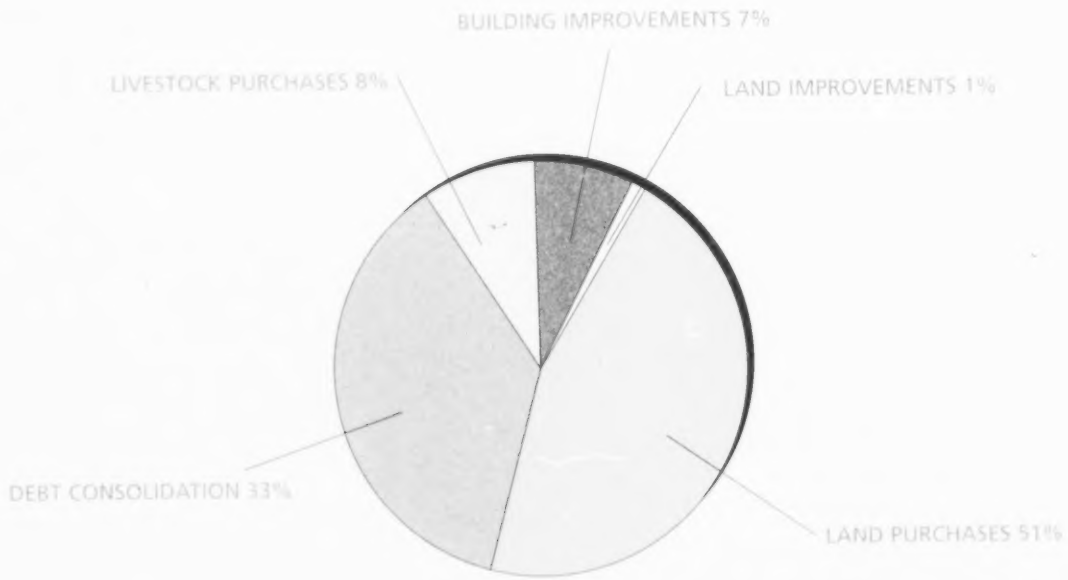
MACC's Direct Lending Program provides eligible Manitoba producers with short, intermediate and long-term financing, competitive interest rates and no prepayment penalties. Clients also have the control and flexibility of locking the interest rate for the full amortization period or by selecting a five-year renewable interest term.

### DIRECT LOANS

In 1959-1960, the first year of its inception, MACC offered Direct Loans to assist Manitoba producers in establishing, developing and operating their farms. Direct Loans are available for a variety of purposes such as the purchase of land/buildings, permanent improvements to land/buildings, traditional or alternative breeding stock, construction and renovation of production buildings, quota or debt consolidation.

During 2004-2005, there were 241 loans approved totalling $14.6 million as compared to 296 loans approved totalling $19.0 million during 2003-2004. The major allocation of agricultural lending activities in 2004-2005 went to land purchase loans of 51% and debt consolidation loans of 33%.

**APPROVED DIRECT LOANS BY PURPOSE 2004-2005**



## STOCKER LOANS

In 1974-1975, MACC introduced Stocker Loans to provide livestock inventory financing. This includes the purchase of various categories of feeder cattle.

During 2004-2005, MACC approved 313 loans for 41,157 head, totalling $18.2 million as compared to 365 loan approvals for 44,675 head, totalling $22.1 million for 2003-2004.

## BRIDGING GENERATIONS INITIATIVE

In 2002-2003, MACC implemented the Bridging Generations Initiative, a five-year pilot project, to assist in the transferring of farm assets between retiring and next generation farmers. The initiative is comprised of six key elements:

- Bridging Generations Loan
- Bridging Generations Mortgage Guarantee
- Livestock Herd Establishment Loan
- Land Lease Guarantee
- Lifestyle Transition Loan
- Management Training Credit

During 2004-2005, MACC approved 84 Bridging Generations Loans, totalling $11.9 million as compared to 92 Bridging Generations Loans and one Bridging Generations Mortgage Guarantee, totalling $10.6 million in 2003-2004.

## YOUNG FARMER REBATE

Direct Loans and Bridging Generations Loans can include a Young Farmer Rebate for qualifying clients. MACC introduced the Young Farmer Rebate in 1978-1979 to assist young, beginning and expanding farmers in the development, re-organization and expansion of their farm operations. The rebate is aimed at reducing the cost of borrowing during the critical start-up stage of operation. Eligible young farmers, under the age of 40, receive a rebate of 2% on the first $100,000 of principal on Direct Loans or Bridging Generations Loans, with an interest term of five years or greater. The maximum lifetime rebate is $10,000.

During 2004-2005, MACC distributed $1.5 million of Young Farmer Rebates as compared to rebates of $1.7 million during 2003-2004. Young farmers were approved for 78% of the loan dollar volume in 2004-2005 as compared to 77% for 2003-2004.

## EMERGENCY/SPECIAL ASSISTANCE PROGRAMS

As required, MACC plays a vital role in delivering financial assistance and/or programming in specialized areas that are identified as critical by the province for Manitobans.

### BSE RECOVERY LOAN PROGRAM

MACC implemented the BSE Recovery Loan Program in August 2003. This program provides financial assistance to Manitoba ruminant producers to address feed purchase requirements and accounts payable (excluding term loan payments), which may otherwise jeopardize the continuity of the operation due to the impact of the detection of BSE in Canada.

As of March 31, 2005, MACC approved 1,742 loans totalling $67.4 million.

### COMPREHENSIVE REFINANCING LOANS

MACC introduced Comprehensive Refinancing Loans in 1985-1986 to provide loans to farmers who were in financial difficulty. MACC enhanced the program in 1998-1999 when $5 million was made available specifically for lending to existing MACC clients in financial difficulty. The interest rate was set at 6.5% for the first five years of each loan. An additional $5 million was made available in 2001-2002 with the same interest rate. In 2004-2005, the program cap was removed and the interest rate for the first five years of the loan is set at 1/2% less than MACC's prevailing five-year rate.

During 2004-2005, MACC approved 12 loans totalling $1.4 million as compared to five approvals for $ 0.5 million in 2003-2004.

### MANITOBA FARM MEDIATION LOAN GUARANTEES

During 1987-1988, loan assistance to clients of the Manitoba Farm Mediation Board was identified to be in the category of "special programs." The Manitoba Farm Mediation Board has funds which it may use to provide guarantees to lenders to assist farmers experiencing financial difficulties.

In 2004-2005, there were Manitoba Farm Mediation Guarantees associated with two new loans totalling $191,707 as compared to three loans totalling $417,537 during 2003-2004.

# GUARANTEED LOAN PROGRAMS

MACC is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with the major chartered banks, credit unions and caisse populaires. These partnerships provide agricultural producers with access to credit where it would not otherwise be available due to factors such as insufficient equity or security and unproven projects. MACC's guarantees encourage private lenders to participate in areas that they may otherwise consider higher risk.

## ENHANCED DIVERSIFICATION LOAN GUARANTEE (DLG+)

In order to assist Manitoba producers in diversifying their current operation and/or add value to commodities produced on the farm, MACC introduced the Diversification Loan Guarantee (DLG) program in 1995-1996. The Enhanced Diversification Loan Guarantee (DLG+) program replaced the original program in 2001-2002. MACC bases the guarantee on 25% of the principal amount of the loan with no maximum loan cap.

During 2004-2005, MACC approved 19 Enhanced Diversification Loan Guarantees for a total of $14.6 million as compared to 42 approvals with a total of $42.9 million during 2003-2004. At the end of 2004-2005, MACC's total portfolio for the DLG+ program included 201 active guarantees totalling $226.9 million as compared to 197 active guarantees totalling $218.3 million at the end of 2003-2004.

## MANITOBA CATTLE FEEDER ASSOCIATIONS LOAN GUARANTEE

In 1991-1992, the Manitoba Cattle Feeder Associations Loan Guarantee program was introduced to assist Manitoba residents in establishing Feeder Associations and enable them to borrow funds on the strength of a government guarantee to lenders. For each association, the corporation provides a guarantee to the individual lending institution, based on 25% of the amount of the loan. The maximum guarantee is $1.25 million per association.

At the end of 2004-2005, there were 10 Feeder Associations with a total of $19.2 million in approved guaranteed loans (for 106 active members) as compared to 10 Feeder Associations with $22.0 million in approved guaranteed loans (for 132 active members) at the end of 2003-2004.

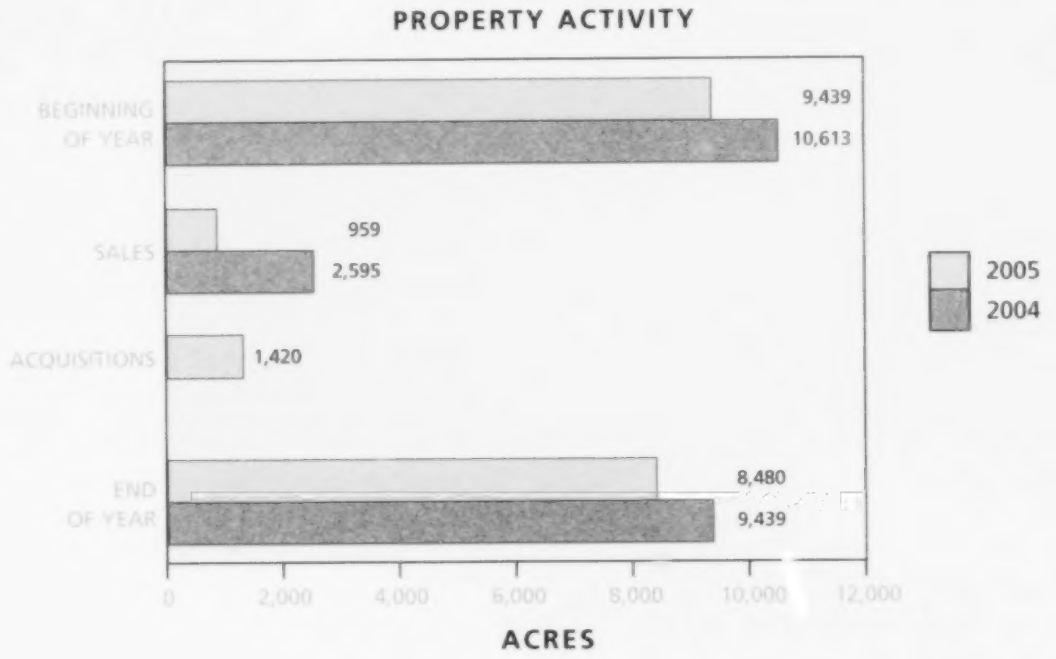
## OPERATING CREDIT GUARANTEE

To assist producers in obtaining operating lines of credit, MACC introduced the Guaranteed Operating Loan program in 1983-1984. The Operating Credit Guarantee program replaced the original program in 2003-2004. MACC provides a 25% guarantee on new lines of credit made to agricultural producers by participating financial institutions for operating expenses. The interest rate on the line of credit cannot exceed the lender's prime rate plus 1.5%.

During 2004-2005, MACC provided 149 loan guarantees totalling $22.9 million approved with the new Operating Credit Guarantee as compared to 53 loan guarantees totalling $8.5 million approved during 2003-2004.

## PROPERTY MANAGEMENT

MACC acquires title to property as a result of debt settlement negotiations or foreclosure proceedings. MACC's policy is to return property to the farmers, wherever possible, by either selling or leasing. If feasible, the property is leased to the original owner.




## SHORT TERM LEASES

MACC offers properties with expired leases for sale by public tender. Properties that are not sold are tendered for lease.

As at March 31, 2005, there were six short term leases consisting of 1,144 acres.

## LAND LEASE OPTION PROGRAM

From 1974 to 1977, MACC purchased farmland from willing sellers and leased it to qualifying farmers. The corporation acquired a total of 223,600 acres for $22.6 million.

As at March 31, 2005, there were 18 long term leases and agreements for sale on 6,164 acres.

## LENDING PORTFOLIO

As at March 31, 2005, MACC's total loan portfolio decreased by 222 loans, $2.3 million from the previous year. This decrease reflects producer response to the numerous challenges facing their sector.

| | Approvals 2004-2005 | | Approvals 2003-2004 | | Active & Outstanding As of March 31, 2005 | |
|---|---|---|---|---|---|---|
| | # of Loans | $M | # of Loans | $M | # of Loans | $M |
| DIRECT LENDING | | | | | | |
| Direct Loans | 241 | $14.6 | 296 | $19.0 | 4,277 | $220.8 |
| Stocker Loans | 313 | 18.2 | 365 | 22.1 | 365 | 18.0 |
| Bridging Generations Loans | 84 | 11.9 | 93 | 10.8 | 294 | 33.1 |
| **Total Direct Lending** | **638** | **$44.7** | **754** | **$51.9** | **4,936** | **$271.9** |
| EMERGENCY/SPECIAL ASSISTANCE | | | | | | |
| Comprehensive Refinancing Loans | 12 | 1.4 | 5 | .5 | 94 | 5.8 |
| BSE Recovery Loans | 284 | 10.4 | 1,458 | 56.9 | 1,709 | 68.0 |
| Enhanced Flood Proofing Assistance Loans [1] | – | – | – | – | 330 | 1.4 |
| Producer Recovery Loans [1] | – | – | – | – | 350 | 11.2 |
| **Total Emergency/Special Assistance** | **296** | **$11.8** | **1,463** | **$57.4** | **2,483** | **$86.4** |
| **TOTAL LENDING PORTFOLIO** | **934** | **$56.5** | **2,217** | **$109.3** | **7,419** | **$358.3** |

## GUARANTEE PORTFOLIO

In 2004-2005, MACC's guarantee portfolio saw a decrease in participation in Enhanced Diversification Loan Guarantees (DLG+) but an increase in the Operating Loan Guarantees (OCG). DLG+ project activity was down year over year due to difficult market conditions including trade issues and the continuation of the BSE crisis. The increase in OCG participation can be attributed to the enhanced awareness of the new product and the economic conditions that have affected the availability of operating credit as lenders look for ways to mitigate risk.

| | Approvals 2004-2005 | | Approvals 2003-2004 | | Active & Outstanding As of March 31, 2005 | |
|---|---|---|---|---|---|---|
| | # of Loans | $M | # of Loans | $M | # of Loans | $M |
| GUARANTEES | | | | | | |
| Enhanced Diversification Loan Guarantees [2] | 19 | $14.6 | 42 | $42.9 | 201 | $226.9 |
| Operating Credit Guarantees | 149 | 22.9 | 53 | 8.5 | 150 | 21.8 |
| Manitoba Cattle Feeder Associations Loan Guarantees | 10 | 19.2 | 10 | 22.0 | 10 | 19.2 |
| **TOTAL GUARANTEE PORTFOLIO** | **178** | **$56.7** | **105** | **$73.4** | **361** | **$267.9** |

1. Past active program.
2. Active and outstanding loans from the original Diversification Loan Guarantee program are also included.

## PROGRAM PARTICIPATION BY SECTOR

MACC's clients span all sectors of agriculture from grains and oilseeds to beef and supply-managed commodities. Similar to Manitoba's gross farm receipts,[3] grains and oilseeds, hogs and beef represent the greatest proportion of MACC's portfolio.

| Primary Enterprise | Direct Lending % of Portfolio ($) | Feeder Association % of Portfolio ($) | Operating Credit Guarantee % of Portfolio ($) | DLG & DLG+ % of Portfolio ($) | TOTAL PORTFOLIO March 31, 2005 |
|---|---|---|---|---|---|
| Grains/Oilseeds | 40.6% | | 57.0% | 0.0% | 34.9% |
| Potatoes | 0.2% | | 8.8% | 5.9% | 1.1% |
| Other Crops | 2.3% | | 10.1% | 0.4% | 2.1% |
| Beef | 48.5% | 100% | 18.4% | 0.1% | 42.2% |
| Hogs | 4.1% | | 2.4% | 64.5% | 12.1% |
| Poultry | 0.7% | | 0.9% | 6.6% | 1.5% |
| Dairy | 1.2% | | 1.1% | 8.5% | 2.2% |
| Other | 2.4% | | 1.3% | 14.0% | 3.9% |
| Total of Portfolio | 84.2% | 1.1% | 1.3% | 13.4% | 100.0% |
| *Guarantees representative of contingent liability | | | | | |
| $ of Portfolio (Millions) | $356.9 | $19.2 | $21.8 | $226.9 | $624.8 |
| *Guarantees represent total value of loans | | | | | |

Note: Table does not include Enhanced Flood Proofing Assistance Loans.

3. Source: Manitoba Agriculture Yearbook 2002

# FINANCING THE CORPORATION

Beginning in 1959-1960, its first full year of operation, the corporation borrowed its capital requirements from the Province of Manitoba. The capital funds at that time remained with the corporation to be reused for lending purposes and the interest charged on this debt was paid annually to the province.

In 1977, arrangements were made to repay these capital funds and the fixed interest charges over an amortization period as consistent as possible with the term over which these funds were loaned to farmers. Subsequent capital advance requirements and terms of repayment were determined annually based on the lending activity of the corporation for that year.

## FINANCIAL STATEMENTS

### BALANCE SHEET – DEFICIT ACCOUNT

1985-1986 brought a change in the method of funding provided by the province for the corporation's operations. This change eliminated any further funding of MACC's allowance for impaired loans and required a return to the province of funds provided for this allowance prior to March 31, 1985.

Because of this funding change, the corporation continues to operate from an accumulated deficit position which is now $38,887,870. This is essentially the allowance for impaired loans total of $30,390,110 at March 31, 2005, less the reserve for working capital and other provisions in the amount of $8,497,760.

### STATEMENT OF REVENUE AND EXPENDITURE

The costs of operation were $30,966,269 offset by revenues of $28,615,834 which includes $6,439,874 from the Province of Manitoba.

MACC
Manitoba Agricultural Credit Corporation

Unit 100 – 1525 First Street S.
Brandon MB R7A 7A1
T 204.726.6850 • F 204.726.6849

June 24, 2005

# MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting policies. In management's opinion, the financial statements have been properly prepared and of necessity include some amounts based upon management's best estimates and judgements. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide assurance that reliable financial information is produced and assets are properly accounted for and safeguarded from loss. The Board of Directors, which oversees management's responsibilities for financial reporting, reviews and approves the financial statements. The Board of Directors meets with management and the auditors to discuss the audit, financial reporting, and related matters.

C Kibbins

Charlene Kibbins
Acting, Chief Executive Officer

K. M Eachen

Karen McEachen
Chief Financial Officer

*Office of the Auditor General*

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

# AUDITORS' REPORT

To The Legislative Assembly of Manitoba, and
To the Board of Directors of the Manitoba Agricultural Credit Corporation

We have audited the balance sheet of The Manitoba Agricultural Credit Corporation as at March 31, 2005, the statement of revenue and expenditure and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
June 24, 2005

# FINANCIAL STATEMENTS

The Manitoba Agricultural Credit Corporation
BALANCE SHEET
As at March 31, 2005
(in thousands)

| | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Cash *(Note 3)* | $ 6,200 | $ 11,529 |
| Investments *(Note 4)* | 2,427 | 3,727 |
| Receivables *(Notes 2 and 7)* | | |
| Mortgages *(Note 5)* | 255,429 | 266,425 |
| Other *(Note 6)* | 72,613 | 65,404 |
| Long-term funding commitments – Province of Manitoba *(Note 8)* | 6,417 | 5,985 |
| Real estate *(Notes 2 and 13)* | 1,351 | 1,577 |
| | $ 344,437 | $ 354,647 |
| **Liabilities and Deficit** | | |
| Accounts payable and accrued liabilities | | |
| Unearned real estate revenue | $ 11 | $ 10 |
| Other | 995 | 1,168 |
| Provision for Young Farmer Rebate | 400 | 499 |
| Provision for losses on guaranteed loans *(Notes 2 and 12)* | 11,130 | 10,277 |
| Provision for employee pension benefits *(Notes 2 and 10)* | 6,188 | 5,756 |
| Advances from Province of Manitoba *(Note 9)* | 364,601 | 373,475 |
| | 383,325 | 391,185 |
| Deficit | | |
| Balance, beginning of year | (36,538) | (26,797) |
| Excess of expenditure over revenue | (2,350) | (9,741) |
| Balance, end of year *(Note 16)* | (38,888) | (36,538) |
| | $ 344,437 | $ 354,647 |

Contingent Liabilities *(Note 12)*

APPROVED BY THE BOARD

Sandy Yanick

Sandy Yanick, Acting Chair
DIRECTOR

Ron Kostesky

Ron Kostesky, Member
DIRECTOR

The Manitoba Agricultural Credit Corporation
STATEMENT OF REVENUE AND EXPENDITURE
for the year ended March 31, 2005
(in thousands)

| | 2005 | 2004 |
|---|---|---|
| **Revenue** | | |
| Interest | | |
| Mortgages | $ 18,605 | $ 19,500 |
| Other | 2,762 | 1,480 |
| Cash on deposit with Province of Manitoba | 520 | 454 |
| | 21,887 | 21,434 |
| Province of Manitoba | 6,440 | 5,580 |
| Services donated by Province of Manitoba *(Note 2)* | 77 | 74 |
| Real estate *(Note 11)* | 224 | 464 |
| Change in provision for decline in real estate values *(Note 13)* | (44) | (13) |
| Other | 32 | 48 |
| | 28,616 | 27,587 |
| **Expenditure** | | |
| Administration costs | | |
| Salaries and benefits *(Note 2)* | 4,235 | 4,298 |
| Impaired loan losse *(Notes 2 & 7)* | 2,209 | - 9,035 |
| Change in provision for losses on guaranteed loans *(Notes 2 & 12)* | 1,190 | 1,197 |
| Assistance under the Manitoba Farm Mediation Board Program | 93 | 113 |
| Management Training Credit | 41 | 2 |
| Young Farmer Rebate | 1,532 | 1,744 |
| Other administration costs | 1,016 | 1,067 |
| | 10,316 | 17,456 |
| Financing charges | | |
| Interest on advances from Province of Manitoba | 20,650 | 19,872 |
| | 30,966 | 37,328 |
| Excess of expenditure over revenue | $ 2,350 | $ 9,741 |

The Manitoba Agricultural Credit Corporation
STATEMENT OF CASH FLOWS
for the year ended March 31, 2005
(in thousands)

| | 2005 | 2004 |
|---|---|---|
| **Cash Provided By (Used for)** | | |
| **Operating activities** | | |
| Excess of expenditure over revenue | $ (2,350) | $ (9,741) |
| Items not involving cash | | |
| Change in provision for impaired loan losses | 1,454 | 8,526 |
| Gain on disposal of real estate | (103) | (328) |
| Change in provision for decline in real estate value | 44 | 13 |
| Change in provision for Young Farmer Rebate | (99) | (50) |
| Change in provision for losses on guaranteed loans | 853 | 1,202 |
| Change in provision for employee pension benefits | 432 | 404 |
| Mortgage loans disbursed | (33,008) | (35,474) |
| Mortgage principal received | 44,329 | 38,370 |
| | 13,902 | 12,663 |
| Increase in other receivables | (10,335) | (60,248) |
| Decrease in mortgage receivables | 915 | 439 |
| (Decrease) increase in accounts payable | (172) | 168 |
| | (9,592) | (59,641) |
| Cash provided by (used for) operating activities[1] | 1,960 | (56,719) |
| **Investing activities** | | |
| Proceeds from real estate disposals | 285 | 624 |
| Real estate acquisitions | – | (365) |
| Cash provided by investing activities | 285 | 259 |
| **Financing activities** | | |
| Advances received from Province of Manitoba | 60,000 | 110,000 |
| Advances repaid to Province of Manitoba | (68,750) | (48,400) |
| (Decrease) increase in accrued interest on advances from the Province of Manitoba | (124) | 248 |
| Cash (used for) provided by financing activities | (8,874) | 61,848 |
| Net (decrease) increase in cash | (6,629) | 5,388 |
| Cash, beginning of year | 15,256 | 9,868 |
| **Cash, end of year** | $ 8,627 | $ 15,256 |

(1) Net cash used for operating activities includes $22,860,680 (2004 - $21,551,401) of interest received and $20,774,159 (2004 - $19,623,698) of interest paid.

The Manitoba Agricultural Credit Corporation
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2005
(tabular amounts in thousands of dollars)

## 1. NATURE OF OPERATIONS

The Manitoba Agricultural Credit Corporation was incorporated under *The Agricultural Credit Corporation Act of Manitoba*. Under this Act, the corporation provides and administers financial assistance to farmers to assist in the development of farms in Manitoba.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

**a) Allowances for Impaired Loans**

The allowances for impaired loans are determined annually by a review of individual accounts. The allowances represent management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectibility of principal or interest, specific allowances are established for individual accounts. These accounts are valued at the lower of their recorded value and the estimated net realizable value of the security held for the accounts.

In addition to the allowances for impaired loans identified on an individual loan basis, the corporation establishes a further allowance for impaired loans. This additional allowance for loan impairment represents management's best estimate of probable losses in its entire loan portfolio.

Current year provisions for impaired loans are charged to administration expenditure as impaired loan losses. Actual accounts written off by Board resolution are charged to the allowances for impaired loans.

**b) Provision for Losses on Guaranteed Loans**

The provisions for losses on guaranteed loans are determined annually by a review of individual guarantees. The provisions represent management's best estimate of probable claims against the guarantees. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. These provisions would cover principal, accrued and unpaid interest, and amounts recoverable.

Current year provisions for losses on guaranteed loans are charged to administration expenditure. Actual claims paid are charged to the provisions for losses on guaranteed loans. Recoveries are credited against current year's expenditure.

**c) Real Estate Acquired in Settlement of Loans**

Real estate that is acquired in settlement of loans through foreclosures and voluntary transfers of title is recorded at the lower of the recorded value of the loan and the appraised value of the real estate at acquisition date. Real estate is stated net of a provision for decline in real estate value.

**d) Real Estate Under Long-Term Lease**

Real estate that was acquired under the land lease program for long-term leases is recorded at cost.

**e) Pension Plan**

Employees of the corporation are pensionable under the *Civil Service Superannuation Act*. The corporation accrues a provision for the liability for the employer's share of employee pension benefits, including future cost of living adjustments, based on an actuarial valuation. The corporation began to fund contributions for new employees beginning October 1, 2002

**f) Financial Instruments**

Credit Risk
The corporation provides direct loans to its customers in the normal course of operations. It carries out, on a continuing basis, credit reviews on its customers and maintains provisions for contingent credit losses.

Interest Rate Risk
Interest rate risk is the risk to the corporation's earnings that arises from fluctuations in interest rates, and the degree of volatility of these rates. During the year ended March 31, 2005, the corporation did not utilize derivative financial instruments to reduce its exposure to interest rate risk.

Fair Value of Financial Instruments
Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to cash, other receivables, long-term funding commitments, accounts payable, and accrued liabilities. Fair values of mortgages receivable and advances from the Province of Manitoba are disclosed in their respective notes.

**g) Donated Services**

The Province of Manitoba provides certain administrative services at no charge to the corporation. The estimated fair value of $76,830 (2004 - $74,330) for these services is included in salaries expenditure and donated services revenue in these financial statements.

**h) Measurement Uncertainty – Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**i) Investments**

Investments with the Province of Manitoba are stated at the lower of cost or market value.

## 3. CASH

| | 2005 | 2004 |
|---|---|---|
| Cash on hand in bank | $ 916 | $ 1,772 |
| Cash on deposit with Province of Manitoba | 5,284 | 9,757 |
| | $ 6,200 | $ 11,529 |

## 4. INVESTMENTS, AT COST

| | 2005 | 2004 |
|---|---|---|
| Province of Manitoba, trust deposit 5.75%, Due March 31st, 2006 | $ 2,427 | $ – |
| Province of Manitoba, trust deposit 5.75%, Due March 31st, 2005 | – | 3,727 |
| | $ 2,427 | $ 3,727 |

## 5. MORTGAGES RECEIVABLE

| | | 2005 | 2004 |
|---|---|---|---|
| Amounts are due over the following terms: | | | |
| 1 year | - Accrued interest | $ 10,430 | $ 11,427 |
| | - Arrears | 2,882 | 2,681 |
| | - Prepayments | (10,703) | (11,742) |
| | - Regular instalments | 17,043 | 21,773 |
| | | 19,652 | 24,139 |
| 2 years | - Regular instalments | 23,904 | 24,042 |
| 3 years | - Regular instalments | 24,591 | 25,059 |
| 4 years | - Regular instalments | 23,838 | 25,123 |
| 5 years | - Regular instalments | 22,925 | 23,899 |
| Over 5 years | - Regular instalments | 156,004 | 160,889 |
| | | 270,914 | 283,151 |
| Less: Allowance for impaired loans *(Note 7)* | | 15,485 | 16,726 |
| | | $ 255,429 | $ 266,425 |

The approximate fair value of mortgages receivable at March 31, 2005 is $268,698,210 (2004 - $288,012,750). Fair value is based on expected future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

**Terms of Mortgages Receivable**

Direct lending and special assistance program mortgages are fixed rate mortgages which have an average yield as follows:

| | Direct Lending Mortgages | Special Assistance Mortgages | Total |
|---|---|---|---|
| Less than 6.00% | $ 16,782 | $ 1,099 | $ 17,881 |
| 6.01% to 7.00% | 123,475 | 14,556 | 138,031 |
| 7.01% to 8.00% | 103,042 | 1,197 | 104,239 |
| More than 8.00% | 10,585 | 178 | 10,763 |
| | $ 253,884 | $ 17,030 | $ 270,914 |

These mortgages have maturities as follows:

| | Average Interest Rate | Direct Lending Mortgages | Special Assistance Mortgages | Total |
|---|---|---|---|---|
| 1 to 4 years | 7.133% | $ 19,646 | $ 404 | $ 20,050 |
| 5 to 9 years | 6.910% | 71,645 | 13,038 | 84,683 |
| 10 to 14 years | 7.078% | 75,582 | 2,142 | 77,724 |
| 15 to 19 years | 7.138% | 63,350 | 1,377 | 64,727 |
| 20 to 24 years | 7.116% | 20,393 | 69 | 20,462 |
| More than 25 years | 7.134% | 3,268 | – | 3,268 |
| | | $ 253,884 | $ 17,030 | $ 270,914 |

## 6. OTHER RECEIVABLES

| | 2005 | 2004 |
|---|---|---|
| Stocker loans | $ 18,035 | $ 20,946 |
| BSE Recovery loan program | 67,951 | 54,639 |
| Flood Proofing loan initiative | 1,443 | 1,935 |
| Lease revenue | 74 | 78 |
| Miscellaneous | 15 | 16 |
| | 87,518 | 77,614 |
| Less: Allowance for impaired loans *(Note 7)* | 14,905 | 12,210 |
| | $ 72,613 | $ 65,404 |

Stocker loans are one-year loans with interest rates in the range of 3.75% to 7.1%. The BSE Recovery loans are two-year loans with interest rates in the range of 1.9% to 3.5%.

## 7. ALLOWANCES FOR IMPAIRED LOANS

| | 2005 | Provision (Recovery) | Write-Offs | 2004 |
|---|---|---|---|---|
| Direct lending mortgages | $ 11,433 | $ (449) | $ 156 | $ 12,038 |
| Special assistance mortgages | 4,052 | (553) | 83 | 4,688 |
| | 15,485 | (1,002) | 239 | 16,726 |
| Stocker loans | 3,066 | 1,017 | 465 | 2,514 |
| BSE Recovery loan program | 11,212 | 2,237 | 25 | 9,000 |
| Flood Proofing loan initiative | 566 | (73) | 26 | 665 |
| Other | 61 | 30 | – | 31 |
| | 14,905 | 3,211 | 516 | 12,210 |
| | $ 30,390 | $ 2,209 | $ 755 | $ 28,936 |

## 8. LONG-TERM FUNDING COMMITMENTS – PROVINCE OF MANITOBA

| | 2005 | 2004 |
|---|---|---|
| Employee Severance | $ 229 | $ 229 |
| Employee Pension Benefits *(Note 10)* | 6,188 | 5,756 |
| | $ 6,417 | $ 5,985 |

## 9. ADVANCES FROM PROVINCE OF MANITOBA

In accordance with Province of Manitoba practices, the corporation must repay advances according to the amortization schedule or be subject to a prepayment penalty. The mark to market calculation for any principal prepayment will be the present value of the cash flows on the principal being repaid against the cash flows using a yield to maturity on the date of the payment compounded semi-annually that a non-callable Province of Manitoba Bond would carry, if issued in Canadian dollars in Canada, at 100% of its principal amount on the payment date with a term to maturity equal to the remaining term to maturity of the loan being repaid.

| | 2005 | 2004 |
|---|---|---|
| Advances are repayable in equal annual blended instalments of principal and interest, with interest rates from 3.25% to 8.00%. Maturities of principal by fiscal year are as follows: | | |
| 2005 | $ – | $ 57,996 |
| 2006 | **99,519** | 63,424 |
| 2007 | **36,681** | 35,492 |
| 2008 | **32,289** | 31,024 |
| 2009 | **30,025** | 28,693 |
| 2010 | **26,825** | 25,431 |
| 2011 through 2031 | **139,138** | 131,167 |
| | **364,477** | 373,227 |
| Accrued Interest | **124** | 248 |
| | **$ 364,601** | $ 373,475 |

The approximate fair value of advances from the Province of Manitoba at March 31, 2005 is $377,512,860 (2004 - $397,214,780). Fair values for the advances from the Province of Manitoba are based on the net present value of expected future cash flows, discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

## 10. PROVISION FOR EMPLOYEE PENSION BENEFITS

Corporation employees are eligible for defined benefit pensions under *The Manitoba Civil Service Superannuation Act*. In accordance with the provisions of this Act, the corporation contributes 50% of the pension disbursements made to retired employees.

Actuarial valuations are to be carried out every three years to provide an estimate of the accrued liability for unfunded pension benefits. The most recent actuarial valuation was performed as at December 31, 2004 and was not available at the time of financial statement preparation. Based on the 2001 valuation (the most recent actuarial valuation available) for "Future Indexing", the actuarial liability for unfunded pension benefits is estimated to be $6,187,847 at March 31, 2005 (2004 - $5,755,644). MACC's pension expense for the 2005 fiscal year is $229,308 (2004 - $175,290). Of this amount, $14,521 (2004 - $4,709) relates to the funding of contributions

of employees commencing employment subsequent to September 30, 2002 and $181,640 (2004 - $169,996) represents payments to fund MACC's portion of payments made to existing pensioners. The above amount also includes $33,147 (2004 - $585) which was refunded to employees that resigned during the fiscal year.

## 11. REAL ESTATE REVENUE

| | Proceeds | Book Value | 2005 | 2004 |
|---|---|---|---|---|
| Sales to lessees | $ 108 | $ 68 | $ 40 | $ 313 |
| Sales by public tender | 177 | 114 | 63 | 15 |
| | $ 285 | $ 182 | | |
| Net gain on sale of real estate | | | 103 | 328 |
| Lease revenue from real estate acquired in settlement of loans and from long-term leases | | | 133 | 152 |
| Interest revenue | | | 5 | 9 |
| | | | 241 | 489 |
| Less: Real estate carrying costs | | | 17 | 25 |
| | | | $ 224 | $ 464 |

## 12. CONTINGENT LIABILITIES

**a)** The corporation introduced the Operating Credit Guarantee Program on April 1, 2003, which replaced the Guaranteed Operating Loan Program introduced in April 1983. The corporation guarantees each participating lending institution 25% of the total of each loan made under this program compared to the Guaranteed Operating Loan Program that guaranteed each participating lending institution 12½% of the respective total value of all loans made under the program. As of March 31, 2005, the corporation's contingent liability amounted to $5,468,150 (2004 - $1,908,750). Based on management's best estimate of probable losses, the corporation has made a provision for this contingency in the amount of $646,815 (2004 - $290,750). The corporation adjusts the provision to the level regarded by management as appropriate through a current provision charged or credited to administration expenditure for the year.

**b)** The Manitoba Cattle Feeder Associations Loan Guarantee Program was introduced jointly by Manitoba Agriculture, Food and Rural Initiatives and The Manitoba Agricultural Credit Corporation in November 1991. In September 1997, The Manitoba Agricultural Credit Corporation assumed responsibility for administration of the program. For each association, the corporation provides a guarantee to the lending institutions, based on 25% of the amount of the loan to a maximum guarantee of $1,250,000. As of March 31, 2005 the corporation's contingent liability amounted to $4,797,924 (2004 - $5,507,218). Based on management's best estimate of probable losses, a provision has been made for this contingency in the amount of $1,199,481 (2004 - $1,376,805).

c) The Diversification Loan Guarantee Program was introduced in December 1995 to provide guarantees on loans made by participating lenders for diversification or farm value-added activities. The corporation guaranteed 25% of the private lender's loan portfolio under this program. The maximum individual guaranteed loan allowable was $3 million. As at March 31, 2005, the corporation's contingent liability under this program amounted to $14,678,419 (2004 - $15,351,919). Based on management's best estimate of probable losses on this program, the corporation has established a provision in the amount of $2,978,159 (2004 - $2,725,587).

d) The Enhanced Diversification Loan Guarantee Program (DLG+) was approved in 2001, which replaced the Diversification Loan Guarantee Program. The guarantee is based on 25% of the original principal amount of the loan (no pooling) with no maximum loan cap. As at March 31, 2005, the corporation's contingent liability under the DLG+ program amounted to $42,036,909 (2004 - $39,225,342). Based on management's best estimate of probable losses on this program, the corporation has established a provision in the amount of $6,305,536 (2004 - $5,883,801).

e) The corporation has guaranteed performance bonds of certain agricultural marketing agencies in the amount of $134,215 (2004 - $134,291). No provision for this contingency has been made in the financial statements. Any payments arising from claims under these guarantees will be recorded as an expense in the period the claims occur.

f) As at March 31, 2005 the corporation had approved but not disbursed mortgages and other loans in the amount of $7,477,750 (2004 - $10,600,428).

## 13. REAL ESTATE

Based on a review of its current real estate portfolio, the corporation has established a provision of $74,834 for 2005 (2004 - $30,800) to provide for future declines in real estate values. This provision represents management's best estimate of probable losses on sale of real estate.

| | 2005 | 2004 |
|---|---|---|
| Real Estate | $ 1,426 | $ 1,608 |
| Provision for decline in real estate values | 75 | 31 |
| | $ 1,351 | $ 1,577 |

## 14. RELATED PARTY TRANSACTIONS

The corporation is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

## 15. COMPARATIVE FIGURES

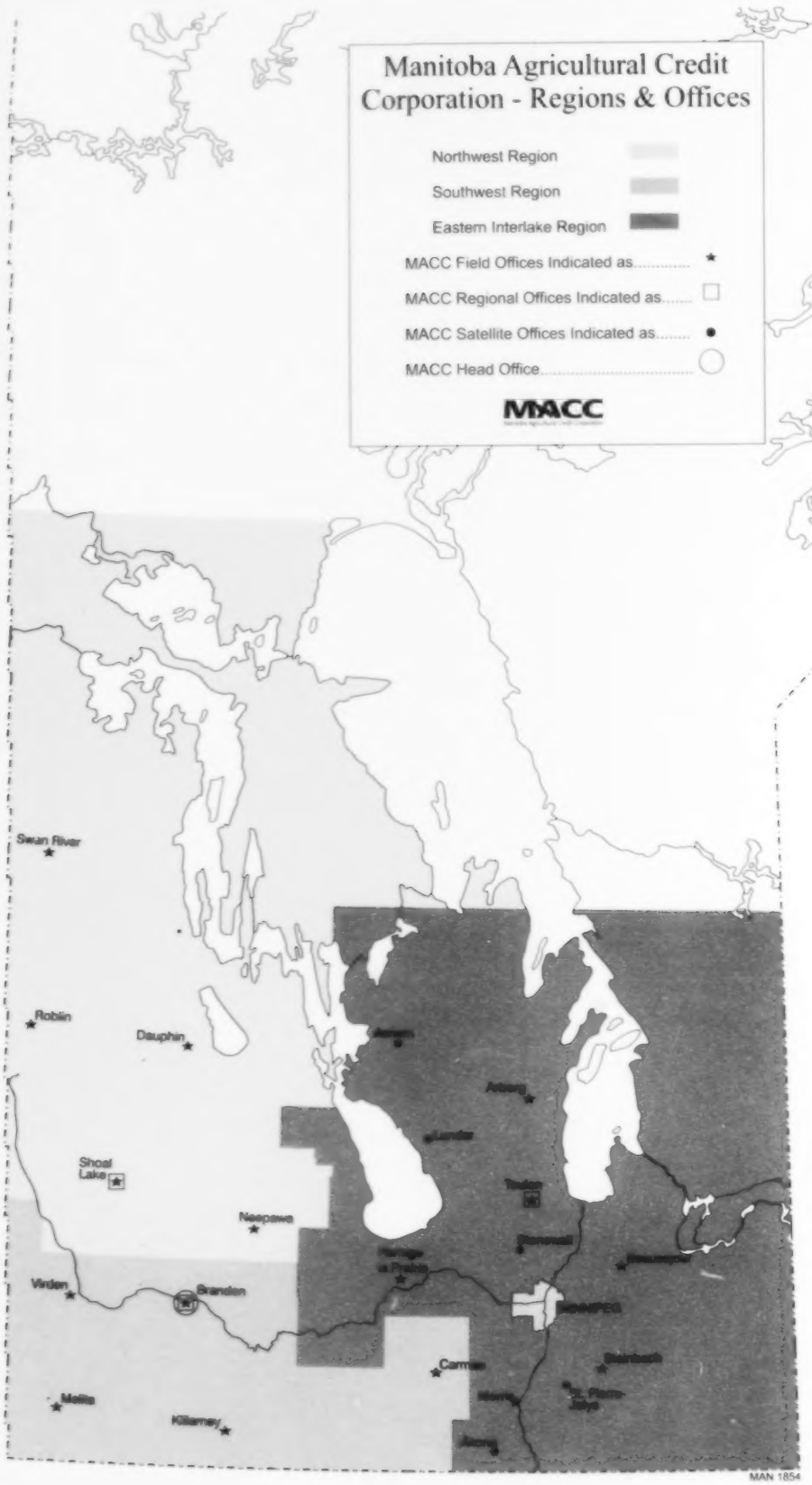
Certain 2004 figures have been reclassified to conform to the 2005 financial statement presentation.

## 16. ECONOMIC DEPENDENCE

The corporation is economically dependent on the Province of Manitoba.

## 17. SUBSEQUENT EVENT

On June 16, 2005 Bill 30, *The Manitoba Agricultural Services Corporation Act*, received Royal Assent. The effect of the Act is to amalgamate The Manitoba Agricultural Credit Corporation and Manitoba Crop Insurance Corporation creating Manitoba Agricultural Services Corporation. The amalgamation is effective on September 1, 2005.




## MACC Field Offices

| | |
|---|---|
| **Altona (Satellite)**<br>Ag Rep Office, Altona Mall | 324-2810 |
| **Arborg**<br>317 River Road | 376-3305 |
| **Ashern (Satellite)**<br>Ag Rep Office, Railway Street | 768-2686 |
| **Beausejour**<br>20 - 1st Street S. | 268-6016 |
| **Brandon**<br>Unit 100 - 1525 1st Street S. | 726-6018 |
| **Carman**<br>65 - 3rd Avenue N.E. | 745-5621 |
| **Dauphin**<br>27 - 2nd Avenue S.W. | 622-2016 |
| **Killarney**<br>411 Broadway Avenue | 523-5270 |
| **Lundar (Satellite)**<br>Ag Rep Office, Main Street | 762-5649 |
| **Melita**<br>139 Main Street | 522-3443 |
| **Morris**<br>229 Main Street S. | 746-7506 |
| **Neepawa**<br>41 Main Street | 476-7026 |
| **Portage la Prairie**<br>2nd Floor, Tupper Street N. | 239-3357 |
| **Roblin**<br>117 - 2nd Avenue N.W. | 937-6470 |
| **St. Pierre-Jolys (Satellite)**<br>Municipal Building | 433-7749 |
| **Shoal Lake**<br>4th Avenue E. | 759-4064 |
| **Steinbach**<br>242 - 323 Main Street | 346-6092 |
| **Stonewall (Satellite)**<br>293 Main Street | 467-8391 |
| **Swan River**<br>120 - 6th Avenue N. | 734-3172 |
| **Teulon**<br>77 Main Street | 886-4412 |
| **Virden**<br>247 Wellington W. | 748-4779 |

# Manitoba Agricultural Credit Corporation - Regions & Offices

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